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PUBLIC SECTOR ACCOUNTING

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Chapter 8
Reporting components and reliability issues

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Summary

This chapter deals with financial reporting in the public sector, taking IPSAS as reference. Some examples of the reporting components of specific countries are presented. The chapter also highlights the role of financial reporting in promoting transparency and accountability in the public sector, and concludes by referring to the importance of auditing to ensure fair presentation and regularity of the public sector accounts, ultimately impacting on citizens' trust in public sector managers and politicians.

Keywords

IPSAS, reporting entity, financial statements, non-financial information, transparency, auditing.

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1. Introduction

Transparency and accountability have become two key aspects of sound public governance. They are two related, although different, concepts. 'Accountability' means the obligation for public officials to report on the usage of public resources and the answerability of government to the public, to meet stated performance objectives.[1] 'Transparency' refers to unfettered access, by the public and other stakeholders, to timely and reliable information on decisions and performance in the public sector. Probably the most widely discussed concept is that of accountability, which essentially relates to the obligation to explain and justify a certain conduct, for which information disclosure is indeed important.[2]

Democratic accountability requires governments to increase transparency, disclosing more budgetary and financial information to citizens and other stakeholders, promoting public expenditure scrutiny, and ultimately preventing corruption and the waste of public resources.

Consequently, budgetary and financial transparency, namely via disclosing General Purpose Financial Reporting (GPFR), has become a pillar within public (financial) management reforms.

The importance of GPFR to promote transparency in the public sector is acknowledged by the IPSASB:

> GPFRs are a central component of, and support and enhance, transparent financial reporting by governments and other public sector entities.[3]

[1] Accountability must be distinguished from stewardship. Stewardship is the duty of care for resources; it involves administration, management, and guardianship of public resources, without concerning about performance.

[2] Lourenço et al. (2013); Jorge et al. (2012).

[3] IPSASB (2014, CF 1.4).

Transparency is, therefore, a prerequisite for accountability, as illustrated in Figure 8.1. It is especially important in the public sector context, where principal-agent relationships prevail (citizens, investors and other stakeholders are principals, while politicians and public officials are the agents), and information needs arise from the opacity of public entities.

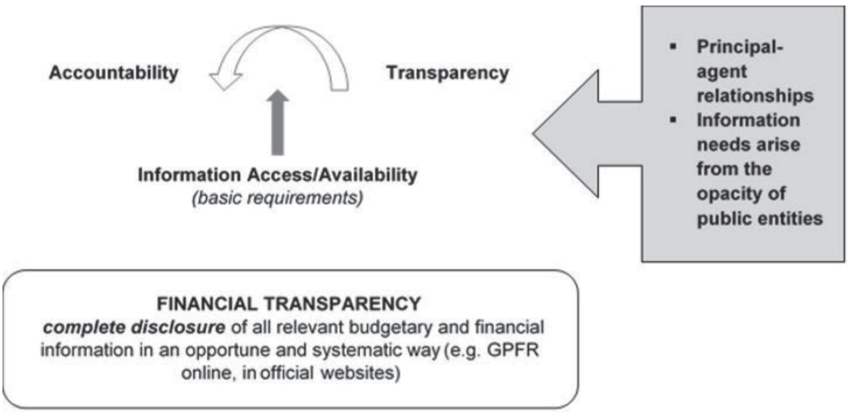

Figure 8.1: Transparency, accountability and financial information
Source: Lourenço et al. (2013).

The availability of financial information is critical for these objectives, hence GPFR must be accessible, preferably online, to all (namely citizens, *media*, investors...), under the assumption of understandability. Access to government information is a perpetual concern of citizens – it helps to improve their trust in the public sector agents and engagement in the public sector affairs.[4]

Online disclosure is nowadays a means resorted to by governments and public sector entities overall to enhance transparency and accountability. However, regarding the extension of the disclosure, one must bear in mind that more information does not

[4] Pina et al. (2007, 2010).

necessarily increase transparency – information overload and (lack of) understandability may jeopardize transparency, ultimately hindering accountability.

In democratic regimes, the disclosure of financial information by governments at all levels, as well as by public sector entities at large, is crucial to the promotion of transparency and increased accountability. General Purpose Financial Reports (GPFRs) are deemed to be an important means of conveying financial information to a large variety of users and stakeholders, potentially interested in such information for the purposes of accountability and decision-making (see Chapter 7 in this book).

> GPFRs are financial reports intended to meet the information needs of users who are unable to require the preparation of financial reports tailored to meet their specific information needs.[5]

This is why they are labeled 'general purpose'. Even if there are users who may have the power to require public sector entities to prepare information for their specific needs (for example, a Minister responsible for a particular project), GPFRs are not developed to respond to these, but to needs supposedly common to several types of users (mostly external to the entity, for example, the public at large), who are expected to be generally satisfied with those reports.

As this chapter will explain, GPFRs comprise several statements and different types of financial and non-financial information. Similar to the business sector, in the public sector the extent of transactions and other events to be reported in the GPFRs is determined by users' information needs, considering the objectives sought for the financial reporting. In these objectives, public sector context specificities must be taken into account.

[5] IPSASB (2014, CF 1.4).

Accordingly, this chapter follows by presenting an overview of the public sector financial reporting setting. Then, it addresses the notion of the reporting entity and the scope of the financial reporting, taking the IPSASB's CF as a benchmark.

The second part explains the format and contents of the main financial statements within IPSAS 1 and IPSAS 2, ending with a comparative international analysis introducing the main financial statements prepared in a number of European countries (Austria, Finland, Germany, Portugal and the UK), taking the IPSAS as a benchmark.

The last part addresses financial reporting reliability-related issues, namely referring to the importance of auditing.

2. The context of GPFR

The following sections particularly refer to the public sector financial reporting environment with multiple stakeholders, and its scope, including examples of complementary statements. The notion of reporting entity is also explained, although this chapter addresses primarily individual accounts and does not address consolidated accounts specifically (which are explained in Chapters 11 and 12 in this book).

By financial reporting one means periodical accounts, generally, the annual accounts. Therefore, other non-financial special reports, such as performance or sustainability reporting, are not addressed.

2.1. Public sector (budgetary and financial) reporting setting

Figure 8.2 illustrates the setting of governments and public sector entities' financial reporting, showing a variety of individuals and bodies as stakeholders to whom those entities report.

Despite the focus on financial issues, those addressees point to a scope of GPFR in the public sector generally wider than in the business sector, namely embracing non-financial and budgetary information (concerning the budget accomplishment).

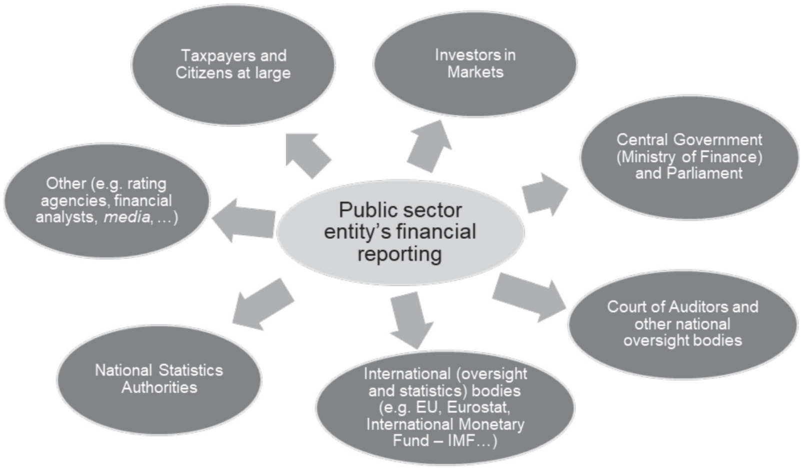

Figure 8.2: Stakeholders (deemed users) of public sector entities' financial reporting

The widely diverse nature of the stakeholders presented for the public sector financial reporting may lead them to give importance to different issues and types of information within the GPFR; there might also be some specificities – for example, Government Financial Statistics use information from GPFR as input to prepare macro/ supranational reporting.

But, in spite of the likelihood of diversified information needs among these individuals and organizations, considering the 'general purpose', GPFR under IPSAS assumes that such needs can be harmonized and summarized in accountability and decision-making purposes,[6] without either purpose predominating.

[6] IPSASB (2014, CF 2).

As to the reporting process, i.e., the bureaucratic procedures and specific practices, while some derive from legal requirements related to monitoring processes (e.g., guidance to report to the ministries, Courts of Audit, the EU or the Eurostat), others derive from transparency practices, often not resulting from any legal requirement, but are voluntary in character. In the former case, the role of the legislator in each country or jurisdiction may be a critical factor determining the reporting practices. This then may lead to differences depending on the countries and on the addressees, users or stakeholders in the reporting process. Yet, regardless of whether reporting procedures follow legal requirements or voluntary transparency practices, including online information disclosure, the two above-stated main objectives of GPFR continue to be asserted.

2.2. Reporting entity

The IPSASB's CF defines a reporting entity as

> (…) a government or other public sector organization, program or identifiable area of activity (…) that prepares GPFRs.[7]

It may comprise two or more separate entities that present GPFRs as if they were a single entity, in this case constituting a 'group reporting entity'.[8] Independently of having legal/juridical personality or not (it may only be an administrative unit), a public sector entity is a reporting entity if it has the responsibility or capacity to raise or deploy resources, acquire

[7] IPSASB (2014, CF 4.1).

[8] IPSASB (2014, CF 4.2).

or manage public assets, incur liabilities, or undertake activities to achieve service delivery objectives. Additionally, there are service recipients or resource providers dependent on GPFRs of that entity to have information for accountability or decision-making purposes.[9]

In accounting terms, a reporting entity is not required to have a legal personality, but it must have operational autonomy; and it may be an identifiable area of activity within a government or organization. For example, the education and the health sectors in a central government, or the education, research, and social services areas in a university, are reporting entities. This paves the way for segment reporting.

An interesting example happened in Portugal, where in 2015, during the process of reforming public sector accounting towards IPSAS, the 'State Reporting Entity' was created, endorsing Whole-of-Government Accounts.[10] This is not a legal entity, but an 'abstract' reporting entity, recording transactions and other events related to the Portuguese State as a sovereign entity, as there are agencies acting on its behalf, such as the Taxation Authority, the Directorate-General of the Budget, the Directorate-General of the Treasury and Finance or the Agency for the Management of Public Debt. Such transactions are, e.g., general revenue (taxes), liabilities (public debt) and State's assets. This entity shall have an 'all-encompassing' GPFR, comprising financial (accrual-based), as well as budgetary (cash-based) information, prepared according to both an IPSAS-based public sector accounting system and the Portuguese Budgetary Framework Law.

[9] IPSASB (2014, CF 4.2-4.7).

[10] For further on the concept of Whole-of-Government Accounts, see Chapter 11 in this book.

2.3. The scope of financial reporting: financial and non-financial information

According to the IPSASB, in governments or public sector entities, GPFR encompasses the following **financial statements** as main components:[11]

– Statement of financial position (***Balance Sheet***);
– Statement of financial performance (***Income Statement by nature and/or by function***);
– Statement of **changes in the Net Assets/Equity**;
– Cash Flow Statement;
– **Comparison of budget and actual amounts** (when budgets are published), either as an additional financial statement, or as a budget column in the financial statements; and
– **Notes**.

However, users often need additional information

> (...) to better understand, interpret and place in context the information presented in the financial statements (...).[12]

Therefore, GPFR should disclose further financial and non-financial information, enhancing, complementing and supplementing the financial statements,[13] namely about:

- Compliance with approved budgets and other authority governing its operations;

[11] IPSASB (2022, IPSAS 1.21).
[12] IPSASB (2014, CF 2.17).
[13] IPSASB (2014, CF 2.29).

- Service delivery activities and achievements during the reporting period; and
- Expectations regarding service delivery and other activities in future periods, and the long-term consequences of decisions made and activities undertaken during the reporting period, including those that may impact expectations about the future.[14]

Usually, this additional explanatory information is included in the Notes, which also comprise a summary of significant accounting policies and further disclosures according to the requirements of each IPSAS. However, it may also be included in separate reports within the GPFRs.

For the public sector, as addressed in previous chapters, it is particularly interesting to have additional information about compliance with public budgets.

Referring to *IPSAS 24 – Presentation of Budget Information in Financial Statements*, the IPSASB explains:

> (...) entities are typically subject to budgetary limits in the form of appropriations or budget authorizations (or equivalent), which may be given effect through authorizing legislation. GPFR by public sector entities may provide information on whether resources were obtained and used in accordance with the legally adopted budget.[15]

A comparison of budget to actual amounts usually consists of a separate statement when budgets are not accrual-based.

It is equally important to disclose

[14] IPSASB (2014, CF 2.17).

[15] IPSASB (2022, IPSAS 1.24).

(…) additional information to assist users in assessing the performance of the entity, and its stewardship of assets, as well as making and evaluating decisions about the allocation of resources. This may include details about the entity's outputs and outcomes in the form of (a) performance indicators, (b) statements of service performance, (c) program reviews, and (d) other reports by management about the entity's achievement over the reporting period.[16]

Finally, public sector entities must also disclose in the GPFR information about compliance with legislative, regulatory or other externally-imposed regulations.[17]

The above-mentioned statements present financial information in different perspectives, which, however, complement and link each other.[18] While the Balance Sheet reflects the entity's financial position at the end of the period, the Income Statement shows the entity's financial performance over the period, leading to a certain surplus/deficit; in addition, the Cash Flow Statement displays the main cash sources (e.g., taxes, sales, borrowing, ...) and applications (e.g., purchases, investments, debt repayment, …) during the period. The net surplus/deficit coming from the Income Statement is part of the Net Assets, and the cash and cash equivalents at the bottom of the Cash Flow Statement are included in the current assets, on the Balance Sheet.

Information about the **financial position** should enable users to identify the resources of the entity and claims on those resources at the reporting date. Information about the **financial performance** should allow for assessments about whether the entity has acquired resources economically, and used them efficiently and effectively to

[16] IPSASB (2022, IPSAS 1.25).

[17] IPSASB (2022, IPSAS 1.26).

[18] See, for example, Van Helden and Hodges (2015).

achieve its service delivery objectives. Finally, information about the **cash flows** should support assessments of financial performance, e.g., the entity's liquidity and solvency, and compliance with spending mandates; indicate how the entity raised and used cash during the period, including its borrowing and repayment of borrowing; and also provide evidence about the likely amounts and sources of cash inflows needed in future periods to support service delivery objectives.[19]

In summary, Figure 8.3 shows a scope of the GPFR that goes beyond that encompassed by the financial statements[20] and is generally broader than in the private sector, especially due to budgetary reporting information.

Figure 8.3: The scope of financial reporting in the public sector

Because approved budgets are public, budgetary information

> (...) is used to justify the raising of resources from taxpayers and other resource providers, and establishes the authority for expenditure of resources.[21]

[19] IPSASB (2014, CF 2.14-2.16); Jones and Pendlebury (2010); Van Helden and Hodges (2015).

[20] IPSASB (2014, CF 2.29). For further on the difference between GPFR and General Purpose Financial Statements (GPFS), see Chapter 1 in this book, especially Figure 1.1.

[21] IPSASB (2014, CF 2.18).

Therefore, it is important to disclose the accomplishments of the budgets finally approved.

> (...) information that assists users in assessing the extent to which revenues, expenses, cash flows and financial results of the entity comply with the estimates reflected in approved budgets, and the entity's adherence to relevant legislation or other authority governing the raising and use of resources, is important in determining how well a public sector entity has met its financial objectives.[22]

Given the main purpose of delivering public services to the citizens, governments' and public sector entities' GPFR shall also include information about the achievement of service delivery objectives. This can be done, for example, by presenting quantitative measures of outputs and outcomes, or providing an explanation of the quality of particular services provided or the outcome of certain programs. Likewise, GPFR considers explanatory information about major factors underlying the financial and service delivery performance of the government or entity during the reporting period[23] (as described in the IPSASB's RPGs, which may be applied on a voluntary basis).

Prospective and long-term information is also particularly important, given the longevity of governments and public sector programs, which determine the 'going concern', given that financial consequences of many decisions in the present may only become clear many years later.

Information within GPFR must be presented in comparative terms, particularly in relation to the preceding period, even regarding explanatory non-financial and narrative information.[24]

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[22] IPSASB (2014, CF 2.21).

[23] IPSASB (2014, CF 2.22-2.24; 2.28).

[24] IPSASB (2022, IPSAS 1.21g), 1.53).

Finally, financial statements are usually presented annually,[25] but the reporting period can be longer or shorter than twelve months. When this is the case, the entity shall disclose the period financial statements relate to, and why it is not annual, highlighting the fact that some amounts in the statements may not be comparable.[26]

2.4. Complementary statements to the GPFR: budgetary reporting and management accounting reporting

Although there are several similarities, GPFR components in the public sector tend to differentiate across countries, as will be presented later in this chapter, namely reflecting different accounting and reporting traditions and priority purposes.

Portugal offers a noteworthy example of complementary statements to be included in the GPFR, in addition to those required by the IPSASB's CF. According to the IPSAS-based *Sistema de Normalização Contabilística para as Administrações Públicas* (SNC-AP), GPFR also comprises:

BUDGETARY REPORTING STATEMENTS (cash- and commitment-based)

- Revenue budgetary execution statement
- Expenditure budgetary execution statement
- Budgetary performance statement
- Statement of the execution of the Multiannual Investment Plan (PPI)
- Notes to the budgetary execution statements

[25] In some countries, the year for the accounts does not coincide with the calendar year. For example, in the UK the reporting period goes from May 1 to April 30.

[26] IPSASB (2022, IPSAS 1.66-1.68).

and MANAGEMENT ACCOUNTING REPORTING STATEMENTS (accrual-based)

- Income statement by functions/activities
- Income statement by products sold or services delivered in the period
- Costs by activities, including information of under-activity variances
- Production costs by products and services delivered, including variances
- Environmental expenses and revenues
- General revenue and expenses non-incorporated in the products and services delivered (period costs)
- Other found relevant to disclose information about management accounting

The above-mentioned *budgetary performance statement* has nothing to do with performance-based budgets but instead reports on the way the budget execution is performed, highlighting the budgetary (cash-based) deficit or surplus.

Management accounting is seen as in the business sector (i.e., relating to cost accounting), although in the public sector, the budget (especially if performance-based, as in Finland) and budgetary reporting might be also seen as management accounting. Information about management and cost accounting was found important to be included in the GPFR (if not as main statements, at least in the Notes) – for example, it is important for citizens to realize the cost of services provided compared to what they actually pay. However, management accounting statements (i.e., reporting management accounting information within the annual accounts) differ from the entity's Management Reporting, which usually accompanies the accounts.

Each of the above statements have standardized models to be used by all entities in Portugal following the accounting and reporting system SNC-AP.

3. GPFR components; comparative analysis

This section follows IPSAS 1 and IPSAS 2 especially, explaining in some detail each of the GPFR main components according to the IPSASB (2022). The comparative-international analysis involves a number of European countries, the IPSASB serving as a benchmark.

3.1. GPFR components according to the IPSASB

When preparing the financial statements, several overall considerations must be taken into account.[27]

It is assumed that if one entity's financial statements are IPSAS-compliant, they will provide a fair presentation of the entity's financial position, financial performance and cash flows.[28] Moreover, the entity's ability to continue as a 'going concern' (see Chapter 7 in this book) must be assessed when preparing the financial statements; if this is in question, such must be disclosed.[29]

Other important issues, which underly the bases for presentation of the financial statements, relate to:

– Consistency of Presentation

> The presentation and classification of items in the financial statements shall be retained from one period to the next unless (...)

[27] IPSASB (2022, IPSAS 1.27-1.58).

[28] IPSASB (2022, IPSAS 1.27-1.37).

[29] IPSASB (2022, IPSAS 1.38-1.41).

> it is apparent, following a significant change in the nature of the entity's operations or a review of its financial statements, that another presentation or classification would be more appropriate…[30]

In the latter case, *IPSAS 3 – Accounting Policies, Changes in Accounting Estimates and Errors*, applies, in order the entity to account for the changes. Consistency is important to allow for comparability.[31]

– Materiality and Aggregation

> Each material class of similar items shall be presented separately in the financial statements. Items of a dissimilar nature or function shall be presented separately, unless they are immaterial.[32]

Usually, immaterial elements appear in the statements aggregated in a residual line called «other».

– Offsetting

> Assets and liabilities, and revenue and expenses, shall not be offset unless required or permitted by an IPSAS.[33]

Offsetting means some form of compensation of the amounts presented, which should be avoided, because it can lead to misrepresentations. Figures in the financial statements must be presented separately in 'gross amounts', as much as possible. For example, offsetting payables with receivables regarding a supplier, can hide information, not showing the real substance of the transaction.

[30] IPSASB (2022, IPSAS 1.42).
[31] IPSASB (2014, CF 3.21-3.25).
[32] IPSASB (2022, IPSAS 1.45).
[33] IPSASB (2022, IPSAS 1.48).

– and, Comparative information,[34] as previously explained.

IPSAS 1 and IPSAS 2 require minimum contents to be presented on the face of the financial statements, but a reporting entity can choose different detail, formats and presentation, as the models suggested in the standards are merely indicative and not exhaustive.

However, a universally accepted requirement is that all financial statements must be clearly identified,[35] displaying prominently the following:

a) The name of the reporting entity or other means of identification, and any change in that information from the preceding reporting date;
b) Whether the financial statements cover the individual entity or the economic entity;
c) The reporting date or the reporting period covered by the financial statements, (...);
d) The presentation currency (...); and
e) The level of rounding used in presenting amounts in the financial statements.[36]

Statement of financial position

Regarding the statement of financial position (designated in some jurisdictions as *Balance Sheet*), IPSAS 1 requires the following minimum elements to be presented on its face:

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[34] IPSASB (2022, IPSAS 1.53-1.58).
[35] IPSASB (2022, IPSAS 1.61-1.65).
[36] IPSASB (2022, IPSAS 1.63).

a) Property, plant and equipment;
b) Investment property;
c) Intangible assets;
d) Financial assets (excluding amounts shown under (e), (g), (h) and (i));
e) Investments accounted for using the equity method;
f) Inventories;
g) Recoverables from non-exchange transactions (taxes and transfers);
h) Receivables from exchange transactions;
i) Cash and cash equivalents;
j) Taxes and transfers payable;
k) Payables under exchange transactions;
l) Provisions;
m) Financial liabilities (excluding amounts shown under (j), (k) and (l));
n) Non-controlling/minority interest, presented within net assets/equity; and
o) Net assets/equity attributable to owners of the controlling entity.[37]

Items (a) to (i) belong to Assets, while (j) to (m) belong to Liabilities. The Equity results from the difference between Assets (including other resources) and Liabilities (including other obligations) (see Chapter 7 in this book). In the public sector, the Equity would be better called 'Net Assets', but it must not be confused with net values presented on the assets side. Within the Net Assets/Equity, especially in consolidated accounts, it is im-

[37] IPSASB (2022, IPSAS 1.88).

portant to present separately the part belonging to the entity and that belonging to non-controlling interests ((o) and (n) above).[38]

An entity may decide to present the statement of financial position in a more synthesized or detailed format (considering additional items or subclassifications), judging the appropriateness of that to its operations,[39] but providing the accomplishment with the IPSAS 1 minimum requirements.

Table 8.1 presents the model suggested in IPSAS 1 for the statement of financial position.[40] Comparability is visible by presenting the amounts of the previous year.

Public Sector Entity—Statement of Financial Position		
As at December 31, 20X2		
(in thousands of currency units)		
	20X2	20X1
ASSETS		
Current assets		
...	X	X
	X	X
Non-current assets		
...	X	X
	X	X
Total assets	X	X
LIABILITIES		
Current liabilities		
...	X	X
	X	X
Non-current liabilities		
...	X	X
	X	X
Total liabilities	X	X
Net assets	X	X
NET ASSETS/EQUITY		
...	X	X
Total net assets/equity	X	X

Table 8.1: Statement of financial position according to IPSAS 1

[38] Non-controlling interests may be zero in cases where the entity participation in the capital of other entities is 100%. For example, when a municipality wholly owns a municipal business company, there are no non-controlling interests in the municipality's consolidated accounts.

[39] IPSASB (2022, IPSAS 1.91-1.93).

[40] See IPSASB (2022, IPSAS 1 Implementation Guidance).

A distinction between current and non-current assets and liabilities is important to be considered,[41] as it affects how long the item is reported on the entity's balance sheet, ranging from short (1 year) to medium- and long-term periods of time (continuity), with differing impacts on the entity's financial balance.

Additionally, assets are broadly presented in order of liquidity, whereas liabilities are broadly presented in order of settlement.

A **current asset** must satisfy any of the following criteria:

a) It is expected to be realized in, or is held for sale or consumption in, the entity's normal operating cycle;
b) It is held primarily for the purpose of being traded;
c) It is expected to be realized within twelve months after the reporting date; or
d) It is cash or a cash equivalent (…), unless it is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting date.[42]

A **current liability** must satisfy any of the following criteria:

a) It is expected to be settled in the entity's normal operating cycle;
b) It is held primarily for the purpose of being traded;
c) It is due to be settled within twelve months after the reporting date; or
d) The entity does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting date (…). Terms of a liability that could,

[41] IPSASB (2022, IPSAS 1.70-1.75).

[42] IPSASB (2022, IPSAS 1.76).

at the option of the counterparty, result in its settlement by the issue of equity instruments do not affect its classification.[43]

All other assets and liabilities are classified as non-current.

Examples of current assets are (available) cash, receivables, prepayments, and inventories. Non-current assets are generally capital assets, such as infrastructure, land, buildings and equipment, financial investments and intangibles. Payables, borrowings, provisions and employees' benefits owing are examples of liabilities (current if short-term, and non-current if long-term).

The model for the statement of financial position suggested in Table 8.1 highlights the Net Assets, evidenced as the difference between Assets and Liabilities. However, this difference needs to be detailed in a separate statement, namely, the Statement of changes in Net Assets/Equity. Governments and most public sector entities do not have share capital. Some public sector entities in the form of companies would have share capital. In both instances, the detail of the items in the Net Assets/Equity must be disclosed, showing separately:

a) Share capital or contributed capital, being the cumulative total, at the reporting date, of contributions from owners, less distributions to owners;
b) Accumulated surpluses or deficits [including the surplus/deficit of the current period];
c) Reserves, including a description of the nature and purpose of each reserve within net assets/equity; and
d) Non-controlling interests.[44]

[43] IPSASB (2022, IPSAS 1.80).
[44] IPSASB (2022, IPSAS 1.95).

The presentation of this detail must ensure that the 'Total Net Assets' equals the amount resulting from the residual difference between Total Assets and Total Liabilities.

Statement of financial performance

The statement of the financial performance displays how the entity was able to generate an accrual-based deficit/surplus from revenues obtained and expenses incurred in the period. As in the previous statement, this designation is again IPSAS language, but it is perhaps most commonly known as *Income Statement* in the public sector, and as *Profit and Loss Statement*, in the business sector. However, perhaps the reason why this label was set aside was an attempt to differentiate from business accounting, where the main goal is to highlight the 'income', anticipated as profit.

As for the statement of financial position, IPSAS 1 also suggests minimum line items to be presented on the face of the statement of financial performance, presenting the following amounts for the period:

a) Revenue;
b) Finance costs;
c) Impairment losses;
d) Share of the surplus or deficit of associates and joint ventures accounted for using the equity method;
e) Any gain or loss arising from differences in measurement criteria of financial assets;
f) Pre-tax gain or loss recognized on the disposal of assets or settlement of liabilities attributable to discontinuing operations; and
g) Surplus or deficit.[45]

[45] IPSASB (2022, IPSAS 1.102).

Therefore, likewise, an entity may decide to present more detail in this statement (namely additional line items and revenue subclassifications), when such presentation is relevant to a better understanding of its financial performance.[46] As in the Balance Sheet, comparability is evidenced by presenting the amounts of the previous year.

Two different presentations are allowed for the statement of financial performance, the difference basically concerning the way expenses are presented – by *nature* (origin) or by *function* (destination). In any case, expenses are deducted (shown in brackets) from revenue, as in Tables 8.2 and 8.3.[47]

Public Sector Entity—Statement of Financial Performance for the Year Ended		
December 31, 20X2		
(Illustrating the Classification of Expenses by Nature)		
(in thousands of currency units)		
	20X2	20X1
Revenue		
(nature/origin of the revenues raised)	X	X
Total Revenue	X	X
Expenses		
(nature/origin of the expenses incurred)	(X)	(X)
Total Expenses	(X)	(X)
Share of surplus of associates	X	X
Surplus/(deficit) for the period	X/(X)	X/(X)
Attributable to:		
Owners of the controlling entity	X	X
Non-controlling interest	X	X
	X/(X)	X/(X)

Table 8.2: Statement of financial performance (by nature) according to IPSAS 1

[46] IPSASB (2022, IPSAS 1.104-1.108).

[47] See IPSASB (2022, IPSAS 1 Implementation Guidance).

Public Sector Entity—Statement of Financial Performance for the Year Ended December 31, 20X2 (Illustrating the Classification of Expenses by Function) (in thousands of currency units)		
	20X2	20X1
Revenue		
(nature/origin of the revenues raised)	X	X
Total Revenue	X	X
Expenses		
(function of the expenses incurred - program/purpose for which they are incurred)	(X)	(X)
Total Expenses	(X)	(X)
Share of surplus of associates	X	X
Surplus/(deficit) for the period	X/(X)	X/(X)
Attributable to:		
Owners of the controlling entity	X	X
Non-controlling interest	X	X
	X/(X)	X/(X)

Table 8.3: Statement of financial performance (by function) according to IPSAS 1

Expenses by nature refer to the origin of the outlays, e.g., wages, supplies and consumables, transfers and grants, depreciation, impairment losses, and finance costs; whereas by function requires a reclassification according to the destination or purpose of expenses, e.g., defense, public order, education, health, social protection, culture, housing, economic affairs, environmental affairs, and finance costs.

An entity may select the presentation that faithfully provides representative and more relevant information.[48] In some jurisdictions and/or for some smaller entities (e.g., in Portugal), only the statement by nature is obligatory.

While in the statement of financial performance by nature, no allocations of expenses to functional classifications are necessary,

[48] IPSAS (2022, IPSAS 1.109).

in the statement by function, expenses are presented according to the program or purpose/destination for which they were incurred.[49]

> This [latter] method can provide more relevant information to users (…), but allocating costs to functions may require arbitrary allocations and involves considerable judgment.[50]

Another problem is that, while functions might be useful for management purposes (for example, to analyze which activities absorb more expenses), they may not be comparable across entities, which make this type of statement less useful, namely, at central level to the government as a whole. Perhaps it is useful mainly as part of the management accounting reporting, as in Portugal.

Revenue in both models of the statement refers to the nature of the proceeds, e.g., from taxes, fines, fees, exchange transactions, and transfers and grants.

The statement of financial performance (either by nature or by function) must also show the allocations of the surplus/deficit between the controlling entity and non-controlling interest for the period, if any.[51] This is particularly important within a public sector group. The amounts of the surplus/deficit for the period, as signed in the tables, must be the same in both models of the statement, regardless the presentation by nature or by function.

One question that can be raised concerns the meaning of the accrual-based deficit/surplus as a measure of financial performance or efficiency,[52] considering the controversy of applying the matching principle between revenues and expenses (see Chapter 7 in this book). Given that

[49] IPSASB (2022, IPSAS 1.112-1.113).

[50] IPSASB (2022, IPSAS 1.113).

[51] IPSAS (2022, IPSAS 1.103)

[52] Jones and Pendlebury (2010).

most revenue comes from taxes (transfers) and grants, which do not link to the expenses incurred by the entity, the application of the matching principle underlying the meaning of the bottom line of the statement of financial performance becomes rather controversial. This has perhaps been behind many criticisms of this statement in public sector accounting, requiring the need to include service delivery and performance information in the GPFR, or even preparing a separate performance report.

Statement of changes in Net Assets

The statement of changes in Net Assets displays the changes in the financial position of an entity, from one period to the other. For the purpose of comparability, two statements must be prepared – regarding the current and the previous year. Each statement reconciles the Net Assets items carrying amounts between the two reporting dates. The suggested model by IPSAS 1 is horizontal,[53] with the Net Assets items in the columns and causes of their changes in the lines. It requires presenting the following information,[54] so that total recognized revenue and expense for the period are displayed:[55]

- Surplus/deficit for the period;
- Revenues and expenses for the period that, according to other IPSAS, are directly recognized in the Net Assets;
- Total of revenues and expenses for the period, resulting from the addition of the two previous items, separating between the amounts attributed to the controlling entity and non-controlling interests;

[53] See IPSASB (2022, IPSAS 1 Implementation Guidance).

[54] IPSASB (2022, IPSAS 1.118-1.119).

[55] Like an ‘extended’ surplus/deficit, beyond what is presented in the Income Statement, resembling the comprehensive income in business accounting.

– Eventual effects of changes in accounting policies and corrections of errors (according to IPSAS 3); and
– The amounts of transactions with owners acting as such, separating distributions to owners from contributions by owners.

The importance of the Statement of Changes in Net Assets in typical public sector entities and governments, which do not have share capital, is questionable. It does not seem so useful as in businesses. In a profit-oriented context, the principle of shareholders' protection is paramount, and this is ultimately reflected in the equity.[56] Therefore, it is important to understand the comprehensive profitability of the company and how equity has changed; but such importance is reduced in the public sector.

For this reason, it was not considered important to present here the model for this statement.

Cash Flow Statement

The Cash Flow Statement[57] informs how the entity generated cash and cash equivalents, and where and how these were applied, i.e., where the money came from and where it went. Prepared under the accrual basis regime, this statement also informs about the entity's cash needs for the period.[58]

The main concepts to be considered when preparing a Cash Flow Statement within IPSAS are:[59] cash (comprising cash on hand and demand deposits); cash equivalents (short-term, highly liquid invest-

[56] In some countries, like in Germany, creditors' protection is paramount.
[57] IPSASB (2022, IPSAS 2).
[58] Jones and Pendlebury (2010); Van Helden and Hodges (2015).
[59] IPSASB (2022, IPSAS 2.8).

ments that are readily convertible to known amounts of cash and which are only subject to an insignificant risk of changes in value); and cash flows (inflows/outflows of cash and cash equivalents).

Cash flows for a certain period are presented in this statement considering the classification as deriving from operating, investing and financing activities.[60]

According to IPSASB (2022, IPSAS 2.8),

> Financing activities are activities that result in changes in the size and composition of the contributed capital and borrowings of the entity.
>
> Investing activities are the acquisition and disposal of long-term assets and other investments not included in cash equivalents.
>
> Operating activities are the activities of the entity that are not investing or financing activities.

This classification

> (...) allows users to assess the impact of those activities on the financial position of the entity, and the amount of its cash and cash equivalents. [It] may also be used to evaluate the relationships among those activities.[61]

Cash flows from **operating activities** are critical, as they relate to the operational capacity of the entity, to repay obligations and to make additional investments, without needing external resources. Operational activities should be the main source of cash for most public sector entities. In particular, they indicate the extent to which the operations of the entity are funded by taxes (directly or indirectly) or by revenue raised from the recipients of goods and services

[60] IPSASB (2022, IPSAS 2.18).

[61] IPSASB (2022, IPSAS 2.19).

provided by the entity.[62] Deriving from principal cash-generating activities, these flows include, among others:[63]

– Cash receipts from: taxes, levies, and fines; charges for goods and services provided by the entity;
– Grants, transfers, etc., received, made by central government or other public sector entities;
– Cash receipts and cash payments of an insurance entity for premiums and claims, annuities, and other policy benefits:
– Cash payments of local property taxes or income taxes (where appropriate) in relation to operating activities; and
– Cash payments to: other public sector entities to finance their operations, e.g., grants conceded (not including loans); suppliers for goods and services; to and on behalf of employees.

When an entity holds securities for dealing or trading purposes, they must be seen as similar to inventories for resale. Therefore, cashflows deriving from these securities are included in cash flows from operating activities. Also, some interest might be included in these cash flows, if they relate to transactions generating operating revenue or expenses.[64]

As to cash flows from **investing activities**, they

> (…) represent the extent to which cash outflows have been made for resources that are intended to contribute to the entity's future service delivery. Only cash outflows that result in a recognized asset in the statement of financial position are eligible for classification as investing activities.[65]

[62] IPSASB (2022, IPSAS 2.21).
[63] IPSASB (2022, IPSAS 2.22).
[64] IPSASB (2022, IPSAS 2.23).
[65] IPSASB (2022, IPSAS 2.25).

Examples of cash flows deriving from investing activities include, among others:[66]

- Cash payments/receipts to acquire/from selling property, plant, and equipment, intangibles, and other long-term assets (including cash payments related to capitalized development costs and self-constructed plant, property and equipment);
- Cash payments to acquire/from the sale of equity or debt instruments of other entities and interests in joint ventures (other than for those considered cash or equivalents or held for trading purposes);
- Cash advances and loans made to other parties (other than advances and loans made by a public financial institution); and
- Cash receipts from the repayment of advances and loans made to other parties (other than advances and loans of a public financial institution).

One issue that can be questioned regards the requirement that an investment cash outflow has to result in an asset recognized on the Balance Sheet. In the public sector, there might be cash outflows to pay 'immaterial investments' (e.g., investments in democratic structures, citizen participation, or culture) not capitalized as assets according to the IPSASB's CF. According to IPSAS, these would be classified as cash outflows of operating activities.

Cash flows from **financing activities** essentially relate to borrowing (issuing and repaying), but also to ownership contributions and ownership distributions. Reporting about these cash flows is important, because they are useful in predicting claims on future cash flows by providers of capital to the entity.[67]

[66] IPSASB (2022, IPSAS 2.25).

[67] IPSASB (2022, IPSAS 2.26).

The following, among others, are examples of cash flows deriving from financing activities:[68]

- Cash receipts from issuing debentures, loans, notes, bonds and other short- or long-term borrowings;
- Cash repayments of amounts borrowed;
- Cash receipts/payments as contributions from an entity to another within a restructuring process; and
- Cash payments by a lessee for the reduction of the outstanding liability relating to a financial lease.

Investing and financing activities that do not require the use of cash or cash equivalents (e.g., an asset received as donation) are excluded from the Cash Flow Statement, being included in other statements or in the Notes.[69]

IPSAS 2 provides illustrative examples for models of the statement to report the above cash flows. These models differ only in the way cash flows from operating activities are compiled. Accordingly, two methods are allowed for the presentation of operating cash flows, whereby the resulting cash flows would be the same:[70]

- Direct method, which use is encouraged, whereby major classes of gross cash receipts and gross cash payments are disclosed; and
- Indirect method, whereby the accrual-based surplus/deficit coming from the Income Statement is adjusted for the effects of transactions of a non-cash nature, any deferrals or accruals of past or future operating cash receipts or payments, and

[68] IPSASB (2022, IPSAS 2.26).

[69] IPSASB (2022, IPSAS 2.54).

[70] IPSASB (2022, IPSAS 2.27-2.30).

items of revenue or expense associated with investing or financing cash flows.

The indirect method is useful as it shows a clear link between the net surplus/deficit for the period and the cash flows. However, although allowed, the Cash Flow Statement by the indirect method may be harder to prepare and interpret; it requires various accounting adjustments that may be difficult to explain to a non-accountant. This is why the direct method is recommended. The direct method reports operating cash flows directly from the cash/bank records. In fact, the statement of cash flows under the direct method would be easier to reconcile with the cash budget.

Table 8.4 displays the model suggested by IPSAS 2 for the Cash Flow Statement prepared using the direct method.

Cash Flow Statement (For an Entity Other Than a Financial Institution)		
DIRECT METHOD Cash Flow Statement		
Public Sector Entity—(Consolidated) Cash Flow Statement for Year Ended		
December 31 20X2 (In Thousands of Currency Units)		
	20X2	**20X1**
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts		
...	X	X
Payments		
...	(X)	(X)
Net cash flows from operating activities (1)	**X**	**X**
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases...	(X)	(X)
Proceeds...	X	X
Net cash flows from investing activities (2)	**(X)**	**(X)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds...	X	X
Repayments...	(X)	(X)
Net cash flows from financing activities (3)	**X**	**X**
Net increase/(decrease) in cash and cash equivalents (1)+(2)+(3)	**X/(X)**	**X/(X)**
Cash and cash equivalents at beginning of period (4)	**X**	**X**
Cash and cash equivalents at end of period (1)+(2)+(3)+(4)	**X**	**X**

Table 8.4: Cash Flow Statement according to IPSAS 2 (direct method)

In Table 8.4, cash outflows are deducted (shown in brackets) from cash inflows; 'proceeds' are inflows. As in the other financial statements, being an illustrative model, entities can make adaptations to consider (after the net increase/(decrease) in cash), for example: value changes of cash equivalents; changes in the scope of consolidation; and effects of exchange rate variations, resulting from conversion of the financial statements in foreign currency. One interesting example of adaptation comes from the Portuguese system SNC-AP: a reconciliation between cash and cash equivalents from financial accounting (accrual-based), with cash balance from the budget execution (cash-based), was added at the end of the model for the Cash Flow Statement suggested in IPSAS 2.

The bottom-line of the Cash Flow Statement – accumulated cash and cash equivalents at the end of the period (going to the Balance Sheet) resulting from the three types of activities, plus the accumulated amount at the beginning of the period – must be at least zero, indicating that the entity overall generated enough receipts to cover the payments.

Notes

As highlighted, the Notes are very important to complement the financial statements and offer non-financial information; they might also include tables and other statements, disclosing information that is not presented on the face of the main financial statements. The financial statements must systematically refer to these Notes, for example, by adding a column to indicate the number of each note (as happens in Portugal), according to the different standard applied. The Notes tend to follow the numbers of the standards. They must start by including a declaration of compliance with IPSAS and a summary of the main accounting policies applied.[71]

[71] IPSAS (2022, IPSAS 1.127-1.150).

3.2. Comparative-international analysis: IPSAS as reference

This section offers a simplified comparative-international descriptive analysis, on the GPFR main components (namely the GPFS in the annual accounts), involving a number of European countries and the IPSAS. Only individual/single accounts are considered, and not consolidated accounts.

<table>
<tr><th>Countries</th><th colspan="3">GPFR components (annual accounts)[72]</th></tr>
<tr><td>IPSASB</td><td colspan="3">Financial Statements
• Statement of financial position
• Statement of financial performance (nature and function)
• Statement of changes in net assets/equity
• Cash flow statement
• A comparison of budget and actual amounts, either as a separate additional financial statement or as a budget column in the financial statements
• Notes</td></tr>
<tr><td>Portugal (C&LGov)</td><td>Financial Statements
• Balance sheet
• Income statement
• Cash flow statement
• Statement of changes in equity
• Annex (notes)</td><td>Budgetary Statements
• Budgetary performance statement
• Revenue budgetary execution statement
• Expenditure budgetary execution statement
• Statement of the execution of the Multiannual Investment Plan (PPI)
• Notes to the budgetary statements</td><td>Management Accounting Statements
• Income statement by functions/ activities
• Income by products sold or services delivered in the period
• Costs by activities, including information of under-activity variances
• Production costs by products and services delivered, including variances
• Environmental expenses and revenues
• Non-incorporated expense
• (…)</td></tr>
</table>

72 Excluding any mandatory management commentary.

<table>
<tr><td rowspan="2">UK</td><td colspan="2">CENTRAL GOVERNMENT (CGov)</td><td>LOCAL GOVERNMENT (LGov)</td></tr>
<tr><td>Financial Statements
• Statement of comprehensive net expenditure
• Statement of financial position
• Statement of changes in taxpayer's equity
• Statement of cash flows
• Notes</td><td>Budgetary Statements
Statement of Parliamentary Supply required to departments:
• Comparison of outturn against the supply estimate voted by Parliament in respect of each budgetary control limit (accrual-based)
• Net cash requirement, with a comparison of the outturn against voted supply estimate (cash at departmental level)
• Statement of administration costs incurred, with a comparison of the administration costs limit</td><td>Financial Statements
• Comprehensive income and expenditure statement
• Movement in reserves statement
• Statement of financial position
• Cash flow statement
• Notes</td></tr>
<tr><td>Germany (IF accrual-based accounting)</td><td>Financial Statements
• Statement of financial position
• Statement of financial performance
• Cash flow statement
• Statement of changes in equity (net position)
• Notes</td><td colspan="2">Budgetary Statements
Operating statement by functions/activities both on accrual and on cash basis</td></tr>
<tr><td rowspan="2">Austria</td><td>CENTRAL GOVERNMENT</td><td colspan="2">REGIONAL AND LOCAL GOVERNMENTS</td></tr>
<tr><td colspan="3">• Balance sheet
• Statement of financial performance (accrual-based budgetary execution statement)
• Statement of cash flow (accrual-based budgetary execution statement)
• Notes</td></tr>
<tr><td>Finland</td><td>Financial Statements
• Balance sheet
• Income sheet
• Cash flow statement
• Notes</td><td colspan="2">Budgetary Statements
• Statements of budgetary outturn
LGov: current budget out-turn, investment budget out-turn, income statement plan outcome and cash flow statement plan outcome
CGov: a combined budget out-turn report</td></tr>
</table>

Table 8.5: GPFR main components (annual accounts) – comparative-international analysis

Table 8.5, while showing a diversity scenario, also shows some convergence, at least apparent.

In fact, although the names of the statements might be similar, and their contents, in some jurisdictions, be close to those required in IPSAS, it is unlikely that the formats are those suggested by the IPSASB, as the models in IPSAS are merely indicative. Financial statements in each of the countries appear to reflect different accounting traditions and the importance given to be more or less close to the reporting model within business accounting, to facilitate consolidation.

Therefore, there are countries, like Finland and Germany, where main financial statements appear to be similar to IPSAS, but in fact they are not IPSAS adopters; so, GPFR seems to have the same GPFS components as in IPSAS, but the elements are presented differently in each statement (also following different principles – see Chapter 7 in this book). On the other hand, there are other countries that, despite being IPSAS followers, have made further important adaptations of the GPFR in IPSAS (sometimes close to IFRS), to consider the specificities of the public sector. These are the cases of UK, Portugal and Austria.[73]

The UK, while not adopting IPSAS directly, refers to IFRS, which are adapted and constantly updated to the public sector scenario – both at central and at local government level. Some statements reflect this, for example, the 'statement of changes in the taxpayers' equity' and the 'movement in reserves statement'. This country also included budgetary statements in the GPFR for both levels of government, but at the local level they are not standardized. At the central level, budget-to-actual comparisons include both accruals and cash figures, reflecting what was designated as 'resource-based budgeting'.[74]

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73 Also, in these countries there is the Management Report that accompanies the annual accounts (GPFS), usually mandatory, which is therefore another important element of the GPFR.

74 Jones and Pendlebury (2010); Van Helden and Hodges (2015).

As explained in section 2.4 of this chapter, in Portugal, GPFR has three main sets of statements: to the IPSAS and accrual-based financial statements, budgetary cash-based reporting statements and management accounting accrual-based reporting statements were added, as presenting seminal information to be disclosed in the public sector setting.

Austria is an IPSAS adopter at the central government level since 2013.[75] Federal (regional) states and municipalities (local government) have been obliged to produce accrual GPFS from 2020.[76] Despite the closeness to IPSAS, because the country uses accrual-based budgets and accrual-based budgetary execution statements, the statements prepared differ from the illustrative models suggested for those statements in IPSAS 1 and IPSAS 2.

Finland and Germany do not follow IPSAS, but in the public sector in these countries there is accrual-based financial reporting and, in some cases, even accrual-based budgetary reporting. In Finland, accruals in public sector accounting follow the national practice in business accounting, so the GPFR includes financial and budgetary reporting, within which the income sheet (central government) and the income statement (local government) assume special relevance, as this statement reflects the execution of accrual and performance-based budgets, somehow also combining with cash figures. Germany is a more particular case, as accrual-based financial reporting exists effectively only in some states. In fact, accrual-based and double-entry accounting only is an option for federal and state governments (see Chapter 7 in this book). Still, federal government mainly uses modernized cameralistics, for example, including performance budgeting. If accrual-based accounting is used, either in three states or roundabout over 60% of the mu-

[75] Rauskala and Saliterer (2015).

[76] Bundesministerium der Finanzen (2018).

nicipalities,[77] budgetary reporting is both cash and accrual-based, given that budget accomplishments have to be reported by activities/ programs – comparison budget-to-actual is made within the financial statements, namely in the statement of financial performance and in the cash flow statement.

4. GPFR reliability issues: the importance of auditing

The reporting components making up the GPFR – whatever form – as detailed in this chapter, are given substance through audit. In other words, unaudited financial statements do not have the same impact as audited ones.

Perhaps even more important than in business accounting, auditing is a fundamental part of public sector accounting,[78] inasmuch as it offers the reassurance that public resources are not misappropriated, and information reported about that is reliable. Both internal and external (either by the Courts of Audit or by statutory auditors) auditing contribute to this reassurance.

One may say that citizens, namely via the Parliament, exercise democratic control over public (sector) accounts. However, this is not a professional control. Therefore, auditing professionals are needed to act in the public (citizens') interest.[79]

Regarding external auditing, two broad types of external audits may be considered[80] – financial and regularity audits, and performance audits. While the former focuses on the financial statements, the latter, which is also called 'value for money' auditing, address-

[77] Small municipalities basically continue using cameralistics (see Chapter 7 in this book).

[78] Jones and Pendlebury (2010).

[79] Budding et al. (2015).

[80] Jones and Pendlebury (2010).

es operational outputs and outcomes. However, the two types of auditing (financial and regularity, and performance audits) tend to be increasingly linked.

> It is not possible to give an opinion on accrual-based financial statements without giving an opinion on the going concern status of the government, which is strictly a matter of performance. Neither is it possible, strictly, to give an opinion about propriety and probity without giving an opinion about outputs and outcomes.[81]

Therefore, as much as financial and performance auditing tend to be separated, the auditor's opinion on fair presentation and financial regularity increasingly requires assessing economy, efficiency and effectiveness.

Financial statement (GPFS) audits, are part of the financial and regularity auditing. GPFS audit ensures: 1) fair presentation (fighting exaggerating or underestimating certain figures in the reporting); and 2) financial regularity and legality (ensuring conformity with the law, namely the budget, and fighting fraud and corruption).

In the public sector, financial statement auditing is usually exercised by professional auditors, internal or external to the entities (for example, auditing firms) and is based on professional pronouncements, namely auditing standards. The assurance of financial regularity and legality is also a very important role of auditing in the public sector context, usually carried out by oversight auditing bodies, namely Supreme Audit Institutions (SAI), such as Courts of Audit or General Audit Offices. Financial statement auditing aims at assessing conformity with accounting

[81] Jones and Pendlebury (2010, p.133).

and reporting standards (financial matters), financial statements being audited at least once a year[82] for fair presentation, and producing the auditor's report. Regularity auditing (also called compliance auditing), aims at ensuring conformity with legal form, i.e. propriety and probity (explicit in the law) of records of transactions and of transactions themselves. As budgets are law, regularity audits also include assessing whether transactions conform to the budget or not.[83]

Even before the existence of financial statement auditing, auditing in governments and public sector entities overall already assessed the propriety of the transactions and the transactions records.

> The propriety of spending and collection of income, the safeguarding of assets and the appropriateness of liabilities, as well as the accuracy and completeness of the records, are judged in the context of public money. (…) Propriety and probity mean the records of transactions have been found to be free of error and not fraudulent, and the transactions themselves have been neither wasteful nor extravagant.[84]

In this case, the auditor (usually a SAI) gives an opinion on whether or not transactions conform to the law. In the case of financial statement auditing, the auditor's report is the

> (…) auditor's opinion on whether or not the general purpose financial statements fairly present what they purport to present

[82] There are *ad-hoc* audits, also related to financial matters, but these audits provide lower levels of assurance, merely 'attesting' – for example, an auditor can certify grant claims (Jones and Pendlebury, 2010).

[83] Jones and Pendlebury (2010); Van Helden and Hodges (2015).

[84] Jones and Pendlebury (2010, p.132).

> and conform to the law related to financial statements [i.e., the reporting standards].[85]

The auditor's report is usually published with the accounts[86] (referring to the records of transactions and whether the recognition, measurement and disclosure criteria and requirements were properly applied to the specific context). Fair presentation can vary across jurisdictions, being expressed as 'presents fairly', 'true and fair view' and 'properly presents'.[87]

Overall, auditing and auditors should reveal whether the reported financial information is reliable or not, highlighting why (for example, via *reservations* and *emphases* in the financial auditing reports) financial information cannot be trusted.[88]

Consequently, the citizens' trust (in the figures, hence in the public sector officials and politicians, as upper level decision-makers about the public resources entrusted to them) should be increased by auditing and auditors (or decreased, if unreliability is highlighted).

> Financial auditing (...) will enhance the confidence of the intended users of (...) financial statements.[89]

External financial auditors may rely on some work of internal auditors, namely in assessing the systems used to record the transactions and produce the financial statements.[90]

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[85] Jones and Pendlebury (2010, p.132).

[86] This is not the case in Germany, where there is no obligation to publish this audit report and only very few German public entities do this.

[87] Jones and Pendlebury (2010).

[88] Jones and Pendlebury (2010).

[89] Van Helden and Hodges (2015, p. 185).

[90] Van Helden and Hodges (2015).

5. Conclusion

This chapter made clear that, considering the setting of governments and public sector entities overall, the scope of the GPFR is different and broader than in businesses. Given that, in the public sector, budgets are commonly published, there is an additional requirement, compared to business enterprises, to, at least, report on the budget accomplishment. Moreover, reporting additional non-financial information, namely service performance-related information, is an important complement to financial statements, inasmuch as the deficit/surplus reported in the Statement of Financial Performance is questionable as a financial performance measure, due to problems relating to applying the matching concept between public revenue and expenses.

Another remark to be made is that, despite standardized models for the statements suggested in the IPSAS, these models, and even the components within GPFR, may diverge across countries, including between those that are IPSAS-compliant; divergence is more striking in countries not following IPSAS. Countries' specificities and national accounting traditions are considered for this divergence, which may jeopardize the international harmonization sought in IPSAS for the GPFR.

But, from the comparative-international analysis carried out in this chapter, a commonality was identified: in all jurisdictions already using accrual-based accounting in the public sector, GPFR presents financial (and budgetary) information in different perspectives – financial, economic, cash and budget execution (regardless of whether budgets are cash- commitment- or accrual-based). Therefore, GPFR seeks fair presentation of the financial position, performance, cash flows and budget accomplishment, of a government or a public sector entity.

Finally, GPFR is generally acknowledged as a crucial means to promote transparency (and accountability), enhanced by the fact that financial statements are audited for reliability assurance, and may easily be made accessible online.

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Additional readings

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Discussion topics

- What is the scope of public sector entities' financial reporting? What information may it embrace, generally going beyond that reported by business entities?
- What are the main financial (and possibly budgetary and management) accounting statements that are part of the GPFR of public sector entities, according to the different frameworks presented in the comparative-international analysis in this chapter? What are the main differences to the GPFR components within the IPSAS?
- What is the role expected for GPFR to have as a tool to improve public sector entities' transparency, enhanced by the fact that those accounts are audited, both for legal form and fair presentation?

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